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**CALIFORNIA PUBLIC EMPLOYEES' RETIREMENT SYSTEM  
BOARD OF ADMINISTRATION**

**MINUTES OF MEETING  
NOVEMBER 16, 2005**

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A meeting of the Board of Administration was held on Wednesday, November 16, 2005 at the Auditorium, Lincoln Plaza North, 400 Q Street, Sacramento, California.

The meeting was called to order at 9:00 a.m. by Board President Rob Feckner.

The Secretary called the roll and the following Board members were present:

Rob Feckner, President  
Robert Carlson, Vice President  
Ron Alvarado  
James Zerio representing Philip Angelides  
Marjorie Berte  
Willie Brown  
George Diehr  
Priya Sara Mathur  
Debbie Endsley representing Michael Navarro  
Michael Quevedo  
Kurato Shimada  
Nick Smith representing Steve Westly

Board Members excused:  
Charles Valdes

**AGENDA ITEM 3 – ANNOUNCEMENT OF CLOSED SESSION**

Mr. Feckner announced that a closed session of the Board of Administration would not be held.

**AGENDA ITEM 4 – APPROVAL OF THE OCTOBER 19, 2005 MEETING MINUTES**

**ON MOTION** by Mr. Diehr, **SECONDED** and **CARRIED**, the Board approved the minutes of the October 19, 2005 meeting with minor editorial changes.

**AGENDA ITEM 5 – CHIEF INVESTMENT OFFICER'S/ASSISTANT EXECUTIVE OFFICER'S REPORT**

Mark Anson, Chief Investment Officer, presented this report to the Board. Inflation moderated this month compared to September with the consumer price inflation running approximately 5% year over year.

It's clear that Ben Bernanke, the Fed nominee for Chairman to replace Alan Greenspan, will make inflation a priority and will set it as an explicit target.

The Investment staff expects inflation to taper off and continue to moderate for the last two months of the year. This means that the Fed will remain vigilant and undoubtedly continue to raise interest rates to keep inflation in check. CalPERS will be slightly more pessimistic on bonds, and will continue to watch what the impact will be on profit margins to corporations in the stock market

## **AGENDA ITEM 6 – INVESTMENT COMMITTEE**

Mr. Diehr, Vice Chair of the Investment Committee, presented this report to the Board. The Committee met on Monday, November 14 and considered a number of items. (Additional information may be found in the November 14, 2005 agenda materials and/or transcripts of the Investment Committee meeting.)

### ***Agenda Item 4 – Real Estate***

- a. Real Estate Annual Plan  
The Committee approved the 2005-06 Real Estate Annual Plan.

### ***Agenda Item 5 – Alternative Investment Management Program***

- a. AIM Annual Plan  
The Committee approved the 2005-06 AIM Annual Plan.

### ***Agenda Item 6 – Global Equity***

- a. International Fund Service Contract Renewal  
The Committee approved (1) an exemption from competitive bidding based on Best Business Practices for the contract to provide the portfolio management platform for the Risk Managed Absolute Return Strategies Program, (2) an annual review contract to International Fund Services for these services, and (3) that it be brought back to the Committee for review no less than once every three years.
- b. Selection of Environmental Public Equity Managers for Spring-Fed Pool  
The Committee approved the following group of managers for inclusion in the Spring-Fed Pool of managers for environmental equity investment management services, subject to successful negotiation of fees and terms.

AXA Rosenberg	U.S. Equity
New Amsterdam Partners	U.S. Equity
Piper Jaffray & Co. – INTECH	U.S. Equity
State Street Global Advisors	U.S. Equity
Brandywine	International Equity
State Street Global Advisors	International Equity

The Committee also approved the use of annual review contracts for the Spring-Fed Pool for environmental equity management services.

- c. New Enhanced Indexing Initiative  
The Committee directed that additional information be provided regarding this proposed strategy at a future meeting.
- e. PacifiCare and United Health Merger  
The Committee approved opposing the merger unless the executive compensation packages triggered by the merger are brought back for a separate vote by the shareowners for approval.  
The Chair directed Legal staff to seek advice from outside counsel and the California Attorney General with respect to the legality of PacifiCare's actions related to the executive compensation packages.

Pursuant to Mr. Carlson's request, the following documents relating to PacifiCare and United Health Merger have been attached and become a permanent part of this record:

- Letter dated September 15, 2005 from Philip Angelides, State Treasurer
- Memo dated November 10, 2005 from Christianna Wood, Senior Investment Officer, Global Equity, to CalPERS Investment Committee Members

#### ***Agenda Item 7 – Global Fixed Income***

- a. International Fixed Income Managers Annual Review  
The Committee approved renewal of contracts for all CalPERS' external international fixed income manager for a period of one year. The five managers are:
  - Baring Asset Management
  - Julius Baer Investments Limited
  - Bridgewater Associates
  - Rogge Global Partners
  - Western Asset Management

#### ***Agenda Item 8 – Chief Investment Officer's/Assistant Executive Officer's Report***

- a. Consolidated Investment Activity Report  
The Committee accepted the Consolidated Investment Activity Report. The total market value of the Fund as of September 30, 2005 was approximately \$195.5 billion and the total book value was approximately \$151.0 billion.
- b. Amendment to Primary Pension Consultant Contract  
The Committee authorized the augmentation of the Primary Consultant Contract No. 2005-3632 (Wilshire Associates) up to a maximum of 35% to allow subcontracting with best in class firms to assist with permissible equity country research.

#### ***Agenda Item 9 – Draft Agenda for December 2005***

The Chair directed that a presentation regarding gasoline production be scheduled for 1:00 p.m. at the December meeting.

The next meeting of the Committee is scheduled for December 12, 2005 in Sacramento, California.

## **AGENDA ITEM 7 – BENEFITS AND PROGRAM ADMINISTRATION COMMITTEE**

Mr. Shimada, Chair of the Benefits and Program Administration Committee, presented this report to the Board. The Committee met on Tuesday, November 15 and considered a number of items. (Additional information may be found in the November 15, 2005 agenda materials and/or transcripts of the Benefits and Program Administration Committee meeting.)

### ***Agenda Item 4 – Proposed Regulations – Service Credit Installment Payment Interest***

Ken Nitschke, Chief, Office of Policy & Program Development presented this item.

The Board approved staff's recommendations for publication of the proposed regulatory amendments on the interest rates to be charged on installment payments for service credit purchases and contribution adjustments.

### ***Agenda Item 5 – Public Agency, State and School Elections – Notices of Election and Schedule of Events***

Rick Nelson, Chief, Operations Support Services Division, presented this item.

The Board approved staff's recommendation to approve the Notices of Election and Schedule of Events for the 2006 Public Agency State and School Elections.

Public comments were received from:

Roger Marxen, California State Employees' Association (CSEA) Retired Division  
Bill Duclus, Retired Public Employees Association (RPEA)

### ***Agenda Item 6 – Chief Actuary Report***

Ron Seeling, Chief Actuary, reported on the success of the October 2005 Educational Forum with a record attendance of 660 participants. Mr. Seeling thanked the Board members for their attendance and support, and recognized all CalPERS staff who worked behind the scenes on this successful event.

Mr. Seeling also reported that the local government/public agencies Actuarial Reports were mailed by October 31, 2005.

### ***Agenda Item 7 – Assistant Executive Officer Report***

Kathie Vaughn reported that CalPERS has been approached by the California State Firefighters Association (CSFA) regarding their intention to sponsor legislation moving the Volunteer Firefighter Length of Service Award System (VFLSAS) from CalPERS to their own organization. CalPERS will be notifying the Fire District employers about this proposal and also working with CSFA on the steps necessary for this transfer. Staff will be reporting back to the Committee as progress is made.

Pat Macht, Assistant Executive Officer, Office of Public Affairs, reported on a new service on CalPERS website called the E-Agenda Alerts. Interested parties can sign up on the website

and have a message e-mailed to them when the Committee and Board agenda items have been posted.

***Agenda Item 8 – Draft Agenda for December 13, 2005 BPAC Meeting***

No changes were made to the agenda.

The next meeting of the Committee is scheduled for December 13, 2005 in Sacramento, California.

**AGENDA ITEM 8 – HEALTH BENEFITS COMMITTEE**

Mr. Diehr, Chair of the Health Benefits Committee, presented this report to the Board. The Committee met on Tuesday, November 15 and considered a number of items. (Additional information may be found in the November 15, 2005 agenda materials and/or transcripts of the Health Benefits Committee meeting.)

***Agenda Item 2 – Announcement of Closed Sessions***

The Chair announced that a closed session will convene at 8:30 a.m. to discuss 2006 Health Plan Contract Provisions and Rates and Potential Litigation – Employer Subsidy: Medicare Part D; and a second closed session will convene at 1:00 p.m. to discuss 2007 Health Plan Contract Negotiations.

***Agenda Item 4 – Recommendation for Approval of Award of Contract No. 2004-3521, Pharmacy Benefit Manager, to the Selected Finalist***

Staff announced that they are still in contract negotiations with the selected finalist, Medco. No action was taken on this item.

***Agenda Item 5 – Status of Contracting Agency Enrollment and Marketing Efforts***

Staff presented information on new and terminating contracting agencies in the CalPERS Health Program and gave an overview of future marketing efforts to promote program visibility.

***Agenda Item 6 – Medicare Part D Implementation***

Staff presented a brief summary of the Medicare Part D implementation options to the Board for consideration. Staff recommended that the Board seek an opinion from the California Attorney General on issues related to the receipt of funds pursuant to the Part D program.

The Board directed the General Counsel to request a formal opinion from the California Attorney General on the issues related to receipt of the Medicare Part D retiree drug subsidy payments, and similar payments received by Kaiser from the Federal Government for all PEMHCA Medicare plans including Kaiser.

***Agenda Item 7 – Proposed Amendments to 2006 CCPOA and PORAC Health Benefits Trust***

Staff presented information regarding the proposed amendments to the 2006 CCPOA and PORAC Health Benefits Plans and the impact of AB 587. Staff recommends that the Board not approve the proposed changes until the legislation and supporting administrative functions can be appropriately adjusted to eliminate any negative impact to members.

Mr. Talbot, on behalf of the PORAC Insurance and Benefits Trust, stated his opposition to staff's recommendation. Ms. Spain, on behalf of the CCPOA Benefit Trust Fund, stated that CCPOA was withdrawing their previously proposed amendment. By direction of the Chair, CalPERS staff will provide technical support to PORAC should they wish to draft a legislative amendment to AB 587 addressing the impact concerns.

The Board approved staff's recommendation to not approve the proposed amendments to the 2006 CCPOA and PORAC Health Benefits Plans.

***Agenda Item 8 – Board's Administrative Decision on GASB 43 and 45 – Consideration of Pre-Funding Retiree Medical Benefits***

Staff provided a brief overview of three possible business models for implementing Governmental Accounting Standards Board (GASB) Statements 43 and 45, and the financial impact of these options.

The Board directed staff to (1) seek a funding source which will provide the necessary appropriation of funds to implement any of the three business models proposed by staff, and (2) directed staff to finalize an implementation plan for each business model.

***Agenda Item 9 – Assistant Executive Officer Report***

Terri Westbrook announced that Steve Larson, with the City of Garden Grove, will be retiring at the end of December.

***Agenda Item 10 – Proposed Agenda for December 13, 2005 Health Benefits Committee Meeting***

The proposed December 13, 2005 Health Benefits Committee meeting agenda was accepted by the Committee.

The next meeting of the Committee is scheduled for December 13, 2005 in Sacramento, California.

**AGENDA ITEM 9 – FINANCE COMMITTEE**

Mr. Carlson, Chair of the Finance Committee, presented this report to the Board. The Committee met on Tuesday, November 15 and considered a number of items. (Additional information may be found in the November 15, 2005 agenda materials and/or transcripts of the Finance Committee meeting.)

### ***Agenda Item 3 – Draft Audited Financial Statements***

Staff presented a draft version of the Comprehensive Annual Financial Report (CAFR) as audited by Deloitte and Touche, LLP, for the year ending June 30, 2005. The Committee noted the lack of adequate funding of the Judges' Retirement Fund and requested specific discussion of this issue to be included in a separate letter to the appropriate agencies.

The Committee accepted the draft audit report on the basic financial statements as audited by Deloitte & Touche, LLP, for the year ending June 30, 2005 and directed staff to forward the audited financial statements to:

- Governor's Office
- Secretary of the Senate
- Chief Clerk of the Assembly
- Secretary, State & Consumer Services Agency
- State Controller's Office
- Department of Finance
- Legislative Analyst Office
- Assembly Public Employees' Retirement & Social Security Committee
- Office of Legislative Counsel
- State Auditor, Bureau of State Audits
- Executive Director, California Judges' Association
- Senate Public Employment & Retirement Committee

### ***Agenda Item 4 – Compliance Office Report***

Sherry Johnstone, Chief Compliance Officer, provided a status update from the Office of Enterprise Compliance.

### ***Agenda Item 5 – Administrative Services Branch, Assistant Executive Officer's Report***

Curtis Howard reported on the updated Disaster Recovery Plan and the R Street move.

### ***Agenda Item 6 – Proposed December 2005 Agenda***

The proposed December 2005 agenda was approved as presented.

The next Committee meeting is scheduled for December 9, 2005 in Sacramento, California.

## **AGENDA ITEM 10 – PERFORMANCE AND COMPENSATION COMMITTEE**

Ms. Mathur, Chair of the Performance and Compensation Committee, stated that the Committee has not met since its previous report to the Board.

The next meeting of the Committee is scheduled for December 9, 2005 in Sacramento, California.

## **AGENDA ITEM 11 – AD HOC BOARD GOVERNANCE COMMITTEE**

Mr. Feckner stated that the Ad Hoc Board Governance Committee had not met since its previous report to the Board.

## **AGENDA ITEM 12– BOARD MEETING CALENDAR**

Mr. Buenrostro presented this item to the Board. There were no changes to the Board's calendar. One item of note is the Board's annual offsite which is scheduled for January 9-11, 2006 at the Marriott Hotel in Napa, California.

## **AGENDA ITEM 13 – CHIEF EXECUTIVE OFFICER'S REPORT**

Mr. Buenrostro reported on the following activities:

**November 7<sup>th</sup>:** Board President Rob Feckner and Vice President George Diehr attended the Prince of Wales Business in the Environment Conference in San Francisco. CalPERS was named specifically by Prince Charles for its leadership in the environmental area. Mr. Feckner noted that Prince Charles also acknowledged Mr. Buenrostro for his leadership ability.

Mr. Buenrostro recognized IT staff, specifically Gene Reich and Terry Bennett of doing an excellent job in the replacement of the current Legacy Information Systems.

## **AGENDA ITEM 14 – BOARD'S STATE LEGISLATIVE PROGRAM/BOARD'S POSITION ON STATE LEGISLATION**

Mr. Walton, Assistant Executive Officer, Governmental Affairs, provided information on the failed initiatives as well as Bargaining Unit 2's Memorandum of Understanding (MOU) agreement with the Administration. For the first time, state employees will have the capability of opting out of retirement coverage for current members as well as new hires, after July 1, 2006. New hires, after July 1, 2007 will be subject to three-year final compensation. Of important note, this agreement is subject to legislative ratification, possibly early January 2006. Staff will provide an analysis for the Board at the appropriate time.

## **AGENDA ITEM 15 – BOARD'S FEDERAL LEGISLATIVE PROGRAM/BOARD'S POSITION ON FEDERAL LEGISLATION**

Tom Lussier, CalPERS Federal Legislative Liaison, presented this report via telephone, providing an update on the following issues:

- Congress's consideration of pension reform legislation
- Health patent extension legislation
- Recently introduced legislation dealing with additional provisions on certain executive compensation provisions and requires certain disclosures and shareholder actions.



**AGENDA ITEM 16 – PROPOSED DECISIONS OF ADMINISTRATIVE LAW JUDGES**

**ON MOTION** by Ms. Mathur, **SECONDED** and **CARRIED**, the Board adopted staff's recommendations on item A (the matter of Sally Mapes), item B (the matter of David Martin) and item C (the matter of Clarence D. Samuelson).

**AGENDA ITEM 17 – GENERAL COUNSEL'S REPORT**

The Board accepted the Monthly New Case Reports and Assignment Matrix as presented by Peter Mixon, CalPERS General Counsel

**AGENDA ITEM 18 – BOARD TRAVEL APPROVALS**

**ON MOTION** by Mr. Alvarado, **SECONDED** and **CARRIED** the Board approved the travel requests in item A1 and A2.

**ON MOTION** by Ms. Mathur, **SECONDED** and **CARRIED** the Board approved the Out-of-Country travel request submitted subsequent to the mailing of the agenda materials. Mr. Zerio, representing the State Treasurer's Office, **ABSTAINED** from voting.

**AGENDA ITEM 19 – DRAFT AGENDA FOR DECEMBER 14, 2005 MEETING**

The Board accepted the draft December 14, 2005 meeting agenda as presented.

There being nothing further to come before the Board of Administration, the meeting adjourned at 10:10 a.m.

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**FRED BUENROSTRO**  
**Chief Executive Officer**